

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Elsie Public Library	County Clinton
Audit Date March 31, 2003	Opinion Date December 1, 2006	Date Accountant Report Submitted to State: February 12, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 108 North Spring Street	City St. Johns	State MI	ZIP 48879
Accountant Signature <i>David M. Stenes, CPA</i> <i>Abraham & Gaffney, P.C.</i>			

**Elsie Public Library
Elsie, Michigan**

FINANCIAL STATEMENTS

March 31, 2003

Elsie Public Library

Elsie, Michigan

March 31, 2003

BOARD OF TRUSTEES

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Elsie Public Library

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Trustees
Elsie Public Library
Elsie, Michigan

We have audited the financial statements of the Elsie Public Library as of and for the year ended March 31, 2003, as listed in the Table of Contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elsie Public Library as of March 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The detailed financial statement listed in the Table of Contents under Supplemental Financial Information is presented for purposes of additional analysis and is not a required part of the financial statements of the Elsie Public Library. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 1, 2006

FINANCIAL STATEMENTS

Elsie Public Library

BALANCE SHEET

March 31, 2003

ASSETS

Cash and cash equivalents	\$ 39,424
Investments	<u>580,055</u>
TOTAL ASSETS	<u>\$ 619,479</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 3,572
Accrued wages	3,398
Other accrued liabilities	<u>980</u>
TOTAL LIABILITIES	7,950

FUND BALANCE

Unreserved - Undesignated	<u>611,529</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 619,479</u>

See accompanying notes to financial statements.

Elsie Public Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE

Year Ended March 31, 2003

REVENUES

Intergovernmental	\$ 2,637
Charges for services	583
Fines and forfeits	23,467
Interest	30,499
Other	<u>29,656</u>

TOTAL REVENUES	86,842
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EXPENDITURES

Recreation and cultural	88,387
Capital outlay	<u>670</u>

TOTAL EXPENDITURES	<u>89,057</u>
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EXCESS OF REVENUES (UNDER) EXPENDITURES	(2,215)
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Fund balance, beginning of year	648,117
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Prior period adjustment	<u>(34,373)</u>
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Fund balance, end of year	<u><u>\$ 611,529</u></u>
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See accompanying notes to financial statements.

Elsie Public Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET TO ACTUAL

Year Ended March 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Intergovernmental - State Aid	\$ 1,200	\$ 2,637	\$ 1,437
Charges for services	3,500	583	(2,917)
Fines and forfeits	22,800	23,467	667
Interest	17,000	30,499	13,499
Other			
Contributions	4,750	20,454	15,704
Miscellaneous	-	9,202	9,202
TOTAL REVENUES	49,250	86,842	37,592
EXPENDITURES			
Recreation and cultural	77,012	88,387	(11,375)
Capital outlay	-	670	(670)
TOTAL EXPENDITURES	77,012	89,057	(12,045)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(27,762)	(2,215)	25,547
Fund balance, beginning of year	648,117	648,117	-0-
Prior period adjustment	-	(34,373)	(34,373)
Fund balance, end of year	\$ 620,355	\$ 611,529	\$ (8,826)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Under Public Act 24 of 1989, the Village of Elsie and the Township of Duplain created the Elsie Public Library in 1945, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of six (6) members, three (3) appointed by the Village of Elsie, and three (3) appointed by the Township of Duplain. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Elsie Public Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Elsie Public Library. The Elsie Public Library has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Elsie Public Library contain all the funds and account groups controlled by the Elsie Public Library Board.

2. Basis of Presentation

The operations of the Library are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Library resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The fund and account groups reported in the financial statements are categorized and described as follows:

GOVERNMENTAL FUND

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The Library considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the financial statements was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the total expenditure level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking, savings, and money market accounts.

Investments consist of mutual funds and certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Elsie Public Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Elsie Public Library.

As of March 31, 2003, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Money market checking	\$ 10,357	\$ 11,978
Savings	27,148	27,148
Certificates of deposit	<u>231,916</u>	<u>231,916</u>
TOTAL	<u>\$ 269,421</u>	<u>\$ 271,042</u>

As of March 31, 2003, the Library's deposits were insured by the FDIC in the amount of \$111,978 and the amount of \$159,064 was uninsured.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flows at certain periods during the year, the amount the Library held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

As of March 31, 2003, the carrying amount and market value for the investments reported in the cash and cash equivalents and investments caption on the balance sheet are as follows:

COMPONENT UNIT	<u>Carrying Amount</u>	<u>Market Value</u>
Uncategorized pooled investment funds	<u>\$ 349,905</u>	<u>\$ 349,905</u>

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2003:

Cash and cash equivalents	\$ 37,657
Investments	<u>581,822</u>
	<u>\$ 619,479</u>

The cash and cash equivalents caption in the financial statements include \$153 of imprest cash.

NOTE C: RISK MANAGEMENT

The Library is exposed to various risk of loss for liability, property, and employer's liability for which the Library carries commercial insurance.

NOTE D: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's budgeted expenditures have been shown at the functional classification level. The approved budget of the Library has been adopted at the functional level.

During the year ended March 31, 2003, the Library incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Recreation and cultural	\$ 77,012	\$ 88,387	\$ (11,375)
Capital outlay	-	670	(670)

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

NOTE E: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustment was made during the fiscal year, which was the result of corrections of accounting errors. This adjustment was reported as a change to beginning fund equity. The effect on operations and other affected balances for the current year and prior period are as follows:

	<u>2003</u>	<u>2002</u>	
Investments	\$ -	\$(34,373)	Correct overstatement
Fund balance - beginning	(34,373)	-	of investments

NOTE F: GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The Elsie Public Library must implement the general provisions of GASB Statement No. 34 no later than the fiscal year ending March 31, 2005; the retroactive reporting of infrastructures, if any, must be implemented no later than the year ending March 31, 2009.



SUPPLEMENTARY INFORMATION

Elsie Public Library

DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET TO ACTUAL

Year Ended March 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Intergovernmental			
State aid	\$ 1,200	\$ 2,637	\$ 1,437
Charges for services			
Library fees	3,500	583	(2,917)
Fines and forfeits			
Penal fines	22,800	23,467	667
Interest			
Regular	17,000	30,499	13,499
Other			
Contributions	4,750	20,454	15,704
Miscellaneous	-	9,202	9,202
TOTAL REVENUES	49,250	86,842	37,592
EXPENDITURES			
General government			
Recreation and cultural			
Salaries	43,047	37,333	5,714
Payroll taxes	-	1,942	(1,942)
Utilities	5,800	5,458	342
Supplies	7,250	4,515	2,735
Materials	14,435	16,079	(1,644)
Contracted services	6,280	20,094	(13,814)
Miscellaneous	200	2,966	(2,766)
Capital outlay	-	670	(670)
TOTAL EXPENDITURES	77,012	89,057	(12,045)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(27,762)	(2,215)	25,547
Fund balance, beginning of year	648,117	648,117	-0-
Prior period adjustment	-	(34,373)	(34,373)
Fund balance, end of year	<u>\$ 620,355</u>	<u>\$ 611,529</u>	<u>\$ (8,826)</u>

Principals

Dale J. Abraham, CPA
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MANAGEMENT LETTER

Board of Trustees
Elsie Public Library
Elsie, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Elsie Public Library for the year ended March 31, 2003. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Library should improve its procedures to ensure the accuracy and timeliness of financial reporting.

As evidenced by the date of the Independent Auditor's Report, the completion of fieldwork for the audit of the Elsie Public Library's financial statements was extremely delinquent. Michigan Public Act 2 of 1968, as amended, requires that each governmental unit serving a population of 4,000 or more have an annual audit (those under 4,000 must have an audit every other year). Audit reports are required to be filed with the Michigan Department of Treasury within six months of fiscal year end. It has been the Elsie Public Library's practice to have an annual audit in the past.

The purpose of financial reporting is to provide summarized financial information in order for readers (i.e., management, the Board of Trustees, etc.) to make informed decisions. These decisions are made to ensure that library funds are used for approved purposes and provide a way to hold decision makers accountable for their actions.

All libraries, regardless of size, should periodically present summarized financial information to provide management and the board the ability to make informed financial decisions. Libraries should have formal, well-documented internal reporting policies. Internal reporting policies often include:

- a. Comparative monthly and annual financial statements, including budget and actual amounts, prepared on a consistent basis.
- b. Explanations of unusual variances between budgeted and actual amounts.
- c. Periodic meetings between management and the board to review financial reports.

We suggest that the Board of Trustees review the Library's current financial reporting procedures and revise them to ensure that the Board is provided accurate, timely, and useful information so that they may make informed decisions in the future. We also suggest that the Library maintain and retain all documentation supporting the information contained within the financial statements so that an audit may be performed in a timely manner. This will allow the audit report to be filed with the Michigan Department of Treasury within six months of fiscal year end as required by Michigan Compiled Law.

2. The Library should retain supporting documentation for all disbursements.

During our test of disbursements, we noted that supporting documentation (i.e., invoices) for two (2) of the five (5) accounts payable disbursement transactions tested could not be located.

We suggest that management retain all supporting documentation for all disbursements.

3. Budgets should be monitored and amended when necessary.

As noted in Note D of the annual financial statements, two (2) functional classifications exceeded the amounts appropriated in the General Fund for the year ended March 31, 2003. The Michigan Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for the General Fund and shall not incur expenditures in excess of the amount appropriated.

We suggest the Library periodically monitor the adopted budget for the General Fund and amend the budget as necessary throughout the year to alleviate unfavorable budget variances.

4. The Library should adopt a fixed asset policy.

During the course of our audit, it was noted the Library has not recorded general fixed assets in the financial statements as required by accounting principles generally accepted in the United States of America.

It is important that the Library establish controls over the addition, disposal, and inventory process related to fixed assets to assure accountability. The Library should set a capitalization threshold and complete a physical inventory of all applicable fixed assets and determine the historical or estimated historical cost of each applicable item.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements, dated December 1, 2006.

This report is intended solely for the information and use of the management and Board of Trustees of the Elsie Public Library and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 1, 2006